



**The Commonwealth of Massachusetts**  
**DEPARTMENT OF**  
**TELECOMMUNICATIONS AND ENERGY**

December 29, 2005

D.T.E. 05-91

Compliance filing of Western Massachusetts Electric Company, pursuant to Western Massachusetts Electric Company, D.T.E. 04-106 (2004) and transmission reconciliation factor filing, for effect January 1, 2006.

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APPEARANCE: Stephen Klionsky, Esq.  
Western Massachusetts Electric Company  
100 Summer Street, 23<sup>rd</sup> Floor  
Boston, Massachusetts 02110  
Petitioner

## I. INTRODUCTION

On December 1, 2005, Western Massachusetts Electric Company (“WMECo” or “Company”) submitted a filing in compliance with Western Massachusetts Electric Company, D.T.E. 04-106 (2004) (“Compliance Filing”) with the Department of Telecommunications and Energy (“Department”). In D.T.E. 04-106, the Department approved an offer of settlement (“Settlement”) between the Company, the Attorney General of the Commonwealth (“Attorney General”), the Associated Industries of Massachusetts, and the Massachusetts Low-Income Weatherization and Fuel Assistance Network. In accordance with the Settlement, the Company proposes to increase its total annual base distribution revenues by \$3.0 million effective January 1, 2006. In addition to the base distribution revenue adjustment, the Company also proposes to collect as exogenous costs approximately \$21.2 million in transmission expenses beginning January 1, 2006.

On December 6, 2005, the Department issued a Notice of Filing and Request for Comments. Comments were received by the Attorney General and the Western Massachusetts Industrial Customers Group (“WMICG”). The Company responded to five Department information requests.<sup>1</sup>

## II. THE COMPANY’S COMPLIANCE FILING

The Settlement permits WMECo to increase the distribution component of its rates, on an equal basis to each rate class, by \$3.0 million effective January 1, 2006, so long as the sum

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<sup>1</sup> On its own motion, the Department moves into the record of this proceeding the responses of WMECo to information requests DTE 1-1 through DTE 1-5.

of WMECo's transition charge, distribution charge, and transmission charge is lower for each of its customers than the sum of these charges in effect prior to the Settlement (Settlement at 2-3; Compliance Filing at 2). Arguing that this condition has been met, WMECo has proposed to increase its distribution rates by \$3.0 million (Compliance Filing at 1-2).

The Settlement also allows the Company to seek exogenous cost recovery, with a threshold amount equal to 0.001253 times operating revenues, on the same terms as those factors allowed for Boston Gas Company, D.T.E. 03-40 (2003) and Blackstone Gas Company, D.T.E. 04-79 (2004) (Settlement at 5).<sup>2</sup> In addition to the distribution rate increase discussed above, WMECo seeks a transmission rate increase of \$21.2 million, including approximately \$12.8 million for exogenous costs associated with actual and forecasted (1) special constraint resource ("SCR") charges and (2) reliability must run ("RMR") charges that are billed from the Independent System Operator - New England ("ISO-NE") (Compliance Filing, Att. 8). WMECo argues that its proposed transmission rate increase is appropriate because the SCR and RMR charges are not within WMECo's control (id. at 3). In addition, the Company argues that the SCR and RMR costs are the result of regulatory changes imposed by ISO-NE (id.).

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<sup>2</sup> Exogenous factor adjustments are positive or negative cost changes beyond a company's control and not reflected in the Gross Domestic Product Productivity Index ("GDP-PI"). D.T.E. 03-40, at 490; D.T.E. 04-79, at 4.

### III. POSITION OF THE COMMENTERS

#### A. Attorney General

First, the Attorney General contends that the Department should open an investigation to examine the Company's calculation of the \$3.0 million distribution rate increase, noting that there appear to be errors in the computations and tables contained in WMECo's Compliance Filing, including the use of 1997 billed sales data instead of more recent data (id. at 1,3).

Second, the Attorney General argues that, as the proponent of the filing, WMECo has failed to meet its burden to demonstrate it is entitled to recovery of exogenous costs (Attorney General Comments at 1-2, citing D.T.E. 03-40, at 490; D.T.E. 04-79, at 4; 220 C.M.R. § 1.10(1)). The Attorney General contends that the price of electricity that WMECo claims drives the RMR and SCR charges higher is not unique to the local electric distribution industry (i.e., increases in the price of electricity are reflected in the GDP-PI) (id. at 2). In addition, the Attorney General argues that the Company has not demonstrated that the proposed exogenous costs are beyond the Company's control or result from regulatory changes after the effective date of the Settlement (id.). Finally, the Attorney General takes issue with the Company's lack explanation as to how it estimated the RMR and SCR costs for 2006, especially why WMECo expects the RMR charges in 2006 to be six times higher than the actual level in 2005 (id. at 3).

#### B. WMICG

WMICG argues that the Department should deny WMECo's request to recover exogenous costs (WMICG Comments at 1-3). Specifically, WMICG argues that SCR and

RMR costs are not exogenous because they are not the result of any regulatory, administrative, or legislative changes and, therefore, are not beyond the Company's control (id. at 2-3).

WMICG contends that SCR and RMR charges have been applicable to transmission customers well before the Settlement (id. at 2). WMICG also argues that, even if WMECo could demonstrate that the SCR and RMR are exogenous, the Company should reasonably have anticipated these costs under the ISO-NE tariffs in effect prior to the Settlement (id.).

#### IV. ANALYSIS AND FINDINGS

The Settlement allows WMECo to receive a \$3.0 million distribution rate increase for 2006, so long as the sum of its distribution, transition, and transmission charges remains lower than the sum of these same components prior to approval of the Settlement on December 29, 2005 (Settlement at 2). The Settlement also allows the Company to seek exogenous cost recovery, consistent with those factors allowed for D.T.E. 03-40 and D.T.E. 04-79 (Settlement at 5). The Company seeks approval of proposed tariffs, M.D.T.E. Nos. 1000N through 1013N, effective January 1, 2006, designed to implement this \$3.0 million distribution rate increase as well as an additional transmission rate increase of \$21.2 million that WMECo seeks to recover as exogenous costs.

With respect to the distribution rate increase, the Company used billed sales for the twelve-month period ended August 1997 to calculate a proposed charge of \$0.0007 per kilowatt-hour ("KWH") to implement the \$3.0 million increase (Compliance Filing, Att. 3).<sup>3</sup>

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<sup>3</sup> The Company states that it used 1997 billing determinants for the twelve-month period ended August 1997 in preparing and obtaining approval for all of its compliance filings (continued...)

It is not appropriate to calculate the distribution rate increase using 1997 sales data because these data are too old to fairly represent actual sales. However, the Company has subsequently demonstrated that the distribution rate increase will not exceed \$3.0 million using 2006 forecasted sales (Exh. DTE 1-5).

The Company has demonstrated that, with a \$3.0 million distribution rate increase, the sum of its distribution, transition, and transmission charges will remain lower than the sum of these same components prior to approval of the Settlement on December 29, 2005 (Exhs. DTE 1-1; DTE 1-5). Therefore, WMECo's \$3.0 million distribution rate increase is approved as consistent with the Settlement.<sup>4</sup>

With respect to the Company's request to recover through its transmission rates approximately \$21.2 million in costs, WMECo specifically identifies only \$12.8 million of the transmission costs associated SCR and RMR charges as exogenous in its filing (Compliance Filing, Att. 8). Also, WMECo seeks recovery of transmission costs for 2005 and 2006 (id.). Rather than actual costs already incurred, WMECo seeks to recover projected costs for the last

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<sup>3</sup> (...continued)  
with the Department since WMECo's initial approval setting rates in 1999. WMECo further claims that more recent billing determinants are not "readily available" (Exh. DTE 1-1(c)).

<sup>4</sup> In response to a Department information request, WMECo submitted revised tariffs also numbered M.D.T.E. Nos. 1000N through 1013N on December 12, 2005, effective January 1, 2006, designed to recover only the \$3.0 million distribution rate increase (Exh. DTE 1-1(b)). The Company is directed to file revised tariffs identical to those contained in Exhibit DTE 1-1(b), adding the phrase "Issued per Order in D.T.E. 05-91," with an effective date corresponding to the date of this Order.

three months of 2005 as well as for 2006 (Compliance Filing, Att. 8; Exh. DTE 1-4).<sup>5</sup> As the Attorney General notes, WMECo does not adequately explain why it expects the RMR charges in 2006 to be six times higher than the level in 2005 (See Attorney General Comments at 3).

In addition, there are several issues raised by the commenters with respect to the Company's request to recover exogenous costs including whether SCR and RMR charges are the result of regulatory, administrative, or legislative changes beyond the Company's control and not reflected in the GDP-PI (Attorney General Comments at 2-3; WMICG Comments at 1-3). We find that the Company has not met its burden to demonstrate that it is entitled to exogenous cost recovery of the approximately \$21.2 million in transmission costs. See D.T.E. 03-40, at 490. The Department determines that further investigation is necessary prior to allowing those costs to be included in the Company's rates. See Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 03-124/03-126, at 4 (2003). Therefore, we deny without prejudice the Company's request for exogenous cost recovery.

Once actual costs incurred for 2005 are available, WMECo may make a filing and seek to recover exogenous costs for that year. Such filing should contain all relevant information, testimony, workpapers, calculations, and assumptions required to demonstrate that it is entitled to exogenous cost recovery.

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<sup>5</sup> Recovery of exogenous costs has been limited to actual costs, incurred on a calendar-year basis. See Boston Gas Company, D.T.E. 04-88 (2004); Boston Gas Company, D.T.E. 05-56 (2005).

V. ORDER

After due notice and consideration, it is

ORDERED: That tariffs M.D.T.E. Nos. 1000N through 1013N, filed by Western Massachusetts Electric Company on December 1, 2005, to become effective January 1, 2006, are DENIED; and it is

FURTHER ORDERED: That Western Massachusetts Electric Company file revised tariffs with M.D.T.E. Nos. 1000N through 1013N, for rates effective January 1, 2006, containing the phrase “Issued Per Order in D.T.E. 05-91” and an issuance date corresponding to the date of this Order; and it is



FURTHER ORDERED: That Western Massachusetts Electric Company shall comply with all other directives contained in this Order.

By Order of the Department,

/s/

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Paul G. Afonso, Chairman

/s/

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James Connelly, Commissioner

/s/

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W. Robert Keating, Commissioner

/s/

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Judith F. Judson, Commissioner

/s/

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Brian Paul Golden, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.